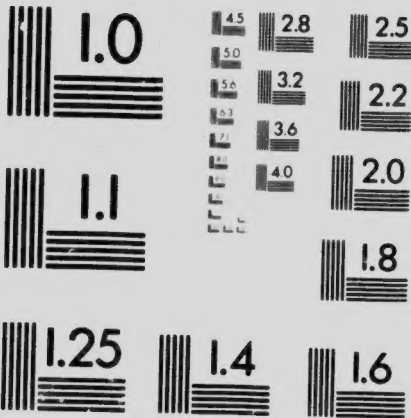


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REPORT
TO THE
City of Vancouver
ON
**Methods of
Municipal Taxation**

December, 1920.



By
DR. HORACE L. BRITTAIN
Director, Citizens Research Institute of Canada.

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Letter of Transmittal

TO THE MAYOR AND CITY COUNCIL OF VANCOUVER:

GENTLEMEN:

In response to the telegram of His Worship, Mayor Gale, I undertook the task of writing a report on the local taxation situation. You will find herewith a report with recommendations as to possible taxation policies for the City.

In this report it has been taken for granted that what was required was not a palliative but a remedy. In order to arrive at fundamentals it was not possible to treat Vancouver as an independent community. This City is a co-operating community, with vital relations to other municipalities, the Province and the Nation. The problem of municipal taxation is also a provincial problem, for the municipality is simply an organ of the Province with a certain field of activity to which it has been assigned. When the municipality was first set up, it was given certain means of obtaining revenue. As its functions enlarged, and its activities became more complex the vital connection between the City and the Province required a co-operative solution of the difficulties arising from insufficient sources of revenue. The fact that the Province is also faced by similar growth of public functions and similar increase in public expenditures, supplies an added reason why these closely interwoven fiscal problems should be solved as phases of the same problem rather than as distinct and unrelated emergencies.

In the last analysis provincial and municipal revenues must come out of the same personal and business incomes. There is no other source, short of appropriating capital funds, from which taxes can be drawn. It is an elementary principle of administration that co-operation, placing together related functions, centralizing general functions, and decentralizing special functions diminish friction, simplify machinery and cut down overhead cost.

The incurring of unnecessary expenditure in raising taxes diminishes the returns available for purchasing public services and is equivalent to imposing an unnecessary tax. If a way can be found to cut down overhead, it is equivalent to remitting an unnecessary tax or finding a new one to purchase extra services.

No apology is offered, therefore, for treating of matters which might be regarded as provincial or national in so far as they offer points of contact with municipal affairs. **An attempt at separate treatment would be essentially dishonest.**

In order to give the basis of and secure a careful hearing for the recommendations of the report, it is necessary for the writer to carry the reader over part of the way which he followed in reaching his

conclusion, hence the somewhat detailed treatment of fact, theory and experience bearing on general and special problems of taxation. For similar reasons the general practice followed by the Institute of placing the summary of recommendations at the beginning of a report, is not followed in this case. The recommendations with a summary of the presentation will be found, however, on pages 30 to 34 inclusive. A consecutive reading of the report is greatly to be desired.

The statistics of taxation in the various Canadian provinces and municipalities are on so many different bases, that they could not be safely treated from the comparative standpoint without months of careful analysis. This was manifestly impossible. The statements of revenue and expenditure in this Province and City have been variously and excellently treated and presented to the public in public documents, but for the most part in a form not available for this study. The figures based thereon for the purpose of this report can be regarded as nothing more than strictly provisional estimates. The report, therefore, has few of those graphic illustrations of the principles set forth which do so much to clarify any statement.

The presentation of statistics, even slightly inaccurate or insufficiently analyzed, would, although perhaps on insufficient grounds, detract from the effectiveness of the report.

It will be noted that the main remedies suggested are three-fold. This is important. Professor Bullock of Harvard, in his "Side Lights on the Preliminary Report on a Model System of State and Local Taxation" makes this statement:—

"Now if you levy just one tax, whether on property or income and pile on to that tax all the burden of supporting all your governments, central and local, it is obvious that every bit of inequality that arises in the particle operation of the tax will be intensified by every fractional increase in the rate of taxation imposed on taxable property or income." The compensatory value of a few fundamental and scientifically administered taxes is invaluable.

The multiplication of taxes is equally wasteful and dangerous, besides being excessively irritating, and entirely out-weighing the value of any revenues they may produce.

The writer wishes to make it clear that he was commissioned to consider taxation only. Hence where expenditure is referred to, it is only in an incidental way. The size of the expenditures will determine the amount of the taxes. This report, therefore, is necessarily confined to a consideration of the forms which municipal taxes should take without reference to the rates which should be applied. This is a matter for the consideration of the citizens and their representatives in the municipal government and is at least as important and requires as careful study as the methods of raising municipal revenue.

Throughout the report the writer has advocated taxation of persons and business on the net income basis for the reasons that this basis represents more clearly ability to pay, and that net income taxes tend to "stay put." May the writer urge on the authorities of Vancouver that they are in a position to perform a great national service by initiating a movement for co-operation in taxation between national,

provincial and local authorities, to the ends that the information belonging to each may be made mutually available, that plans for taxation may be made in view of the whole interrelated field of governmental finance and that co-operation in tax collection and distribution be effected wherever possible?

In conclusion, the thanks of the writer are due to His Worship the Mayor, members of the City Council, officials at the head of Civic Departments, the officers of the Seventeen Citizens Organizations who presented their views at the four public conferences which preceded the writing of this report and to the citizens generally, for their very generous assistance.

Respectfully submitted,

HORACE L. BRITTAIN,

Director Citizens' Research Institute of Canada.

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I. THE DIFFICULTY OF THE SUBJECT.

There is no department of public administration which requires wider information as to human affairs in general, more thorough grounding in economics and the science of government, and more first-hand and practical acquaintance with popular psychology than the department which has to do with the raising of public revenues—municipal, provincial or national. It may be questioned whether any other phase of government presents equal difficulties.

It is evident that with the present level of opinion and practice in taxation, a model system of municipal revenue service cannot be elaborated in a few weeks or even a year. As Prof. Bullock of Harvard University well says: "Changes in tax legislation of necessity take the form of gradual reconstruction of existing laws, here a little and there a little, here a concession to progress and there an obstinate adherence to tradition; so that the result is always patchwork which never satisfies the ardent reformer, and often arouses the ire of the impossibilist who will have an entirely new garment or none." 1.

The way of sure progress is to discover the trends of evolution in taxation, and conform as far as may be under existing local conditions to those methods which seem to be producing the best results in actual practice.

Progress in taxation has been handicapped by the traditional belief or feeling that it is a necessary evil. It is no more an evil than work or paying one's personal bills. If taxpayers were only to remember that if public services were not paid for out of the tax funds, they would have to be paid for out of their private funds directly, usually with much poorer results in service, a much more wholesome attitude toward the problem would result.

II. GENERAL MUNICIPAL CONDITIONS.

The conditions of municipal finance in Vancouver are not different in quality from those obtaining elsewhere. The costs of government have been everywhere increasing just as the costs of services rendered by private agencies have been increasing and largely from the same causes. Not only are costs of identical services increasing, but the number and complexity of services are increasing as municipalities and governments undertake the satisfaction of additional human needs under the pressure of changing human conditions. Prof. Hollander describes the situation succinctly when he states that "new schoolhouses must be erected, more engine-houses must be built, a larger police force must be maintained, and so-called developmental functions must be expanded—all working out to the steady and uninterrupted growth of the municipal budget." 2.

This growth in expenditures has thrown into bold relief the weaknesses of our taxation methods. Their inelasticity as revenue pro-

1. The Taxation of Intangible Property. From the Addresses and Proceedings of the International Conference on State and Local Taxation. 1901. P. 127.
2. Municipal Taxation of Intangible wealth. Reprinted from the Addresses and Proceedings of the National Conference of State and Local Taxation. 1907. P. 406.

ducers has led in many cases to the piling up of arrears of taxes, to the sale of tax-sale lands at prices which have tended to depreciate realty values in general, to the still further demoralization and inadequacy of the tax base, the incurring of large capital debts, the at least temporary weakening of sinking funds and a general increasing strain of municipal indebtedness, even where the municipal debt has not increased in recent years, as is the case in Vancouver.

It is unnecessary to labour the point by presenting detailed statistics or quoting skilled observers. This has been well done elsewhere, for example in the illuminating report of the Assessment and Taxation Commission of Manitoba (1919). Piling Ossa on Pelion would convince nobody now unconvinced of the necessity for definite action.

Until recently municipal, state and provincial taxation has harked back to a time when real property and tangible personalty were almost the exclusive indicia of ability to pay taxes. But development in our industrial and commercial systems during the last century has brought into existence huge masses of intangible wealth which has entirely altered the center of gravity of taxpaying ability. As wealth expanded and differentiated, as new forms of wealth indicating new abilities to pay developed, our tax bases did not correspondingly change in either amount or complexity. The mobility and elasticity of wealth were not completely paralleled by mobility and elasticity of taxation. The present unfortunate conditions are largely due to an attempt to carry on with a comparative rigid tax base which has an ever lessening relation to total ability to pay, under kaleidoscopic changes in public services rendered and huge increases in public expenditures.

It is unnecessary here to illustrate statistically either local conditions or general conditions throughout the country. This has been well done in the various tax commission reports which have been issued by various provincial and municipal governments during the last two or three years. These conditions are universal, vary only in degree and are thoroughly understood by governing bodies and citizens who have interested themselves in problems of municipal taxation.

The fiscal situation in Vancouver is the same in all main essentials as in many cities of Canada and the United States, but there are some points of difference. Prof. A. B. Clark, of the University of Manitoba, in his outline of Provincial and Municipal Taxation writes as follows:—

"The problem of taxation in Vancouver is somewhat different from that of the cities of the Prairie Provinces. As a rule, these cities contain within their boundaries all, and often more than all, the territory their population is likely to occupy within any future that need be considered. Vancouver on the other hand, with an area of 10,784 acres, and a population estimated at present at 105,000 (now about 125,000) is from the fiscal standpoint at a disadvantage, in that an exceptionally large proportion of those whose incomes are earned within the city reside beyond its limits."

Even with amalgamation the necessity for broadening the tax base so as to obtain contributions from all able to pay who benefit

by the City services to business is fairly obvious. The comparative table below indicates the relative position of Vancouver and Toronto as regards the tax base for the general tax-rate. It will be seen that the general per capita tax is about the same, but that the incidence is quite different.

1920	Toronto	Vancouver
Assessment		
Taxable Assessed Improvements per capita	\$ 473.00	\$ 299.00
Assessment on Land per capita....	591.00	1088.00
Total Assessment on Taxable Real Estate per capita	1064.00	1387.00
Assessed Income per capita	85.00 (Est.)
Business Assessment per capita	139.00 "
Total Assessment for General Rate per capita	1288.00 "	1387.00
Taxes		
Tax on Land per capita.....	17.69 "	30.99 (Est.Net)
Tax on Buildings per capita	14.18 "	8.56 "
Total Real Estate Tax per capita	31.90 "	39.55 "
Income Tax per capita	2.59 "
Business Tax per capita	4.14 "
Total General Tax per capita	38.63 "	39.55** "

** per capita gross, \$43.95.

The Vancouver tax figures are based on the net tax rate, 28½ mills, not the gross tax-rate before the deduction of the 10 per cent allowance for prompt payment. The use of the net Vancouver tax rate makes the figures more comparable, although the different policies of the two cities with regard to rebates for prompt payment and penalties for delayed payment introduces an element of difference, which, however, in this case may be considered as negligible.

III. SOME OBSERVATIONS ON THE THEORY OF TAXATION.

Modern Taxation arises out of men's human and social needs and the necessity of co-operation in satisfying them. Under primitive conditions man can maintain his own police and fire departments. He can manage his own systems of sanitation, provide the water supply for himself and family and provide his own health department. He can provide his own highways or use those provided by nature. He can educate his own children in all the arts he knows and which are quite sufficient for their needs.

As civilization developed, division of labour arose. New social needs emerged as communities grew. The individual found that he could no longer be his own butcher, baker, candlestick maker, policeman, fireman and school teacher. Certain of his needs could be satisfied by private cooperation; but certain others could be met only by

the co-operation of the whole community. He had to pay his share of the cost. Sometimes his share could be measured and paid for according to benefit received, e.g., measured water rates, lighting rates, gas rates, etc. Others could not be measured, and, even if they could, very often he would be unable to pay his measured share. **Still he had to have them, and the community for its own self protection had to see that he had them, compromising with him by exacting payment according to his ability to pay.**

A man pays taxes because he receives benefits and he pays taxes in proportion to ability to pay, first because that is the only way some men can in justice be made to pay at all, and, second, because society compels him to receive some of the services whether he wants to or not. The only way he can absolutely avoid taxation, direct or indirect, is to go somewhere where there is none. If he insists on staying where taxes are and where the services which taxes buy are at his disposal, he must pay, **and should be compelled to pay his full share up to the full measure of his ability, if public necessity demands it.**

Prof. Adam Shortt in his *Annals of the American Academy of Political and Social Science*, March 1915, writes:—

"In a modern community, making any claim to be ranked as civilized, its individual members cannot be left to make voluntary provision for the supply of these very essential needs (primary and secondary as defined in the article.) Such provision must be placed at the service of every member of the community, whether he may or may not be able to make a proportionate contribution to the necessary outlay. . . . An individual citizen may be given the option of walking to his place of business or riding in a civic tram, but he cannot be given the option of leaving his house unprotected from fire while his neighbor is so protected." Neither, it may be added, may he keep his children home from school, or drink polluted water or leave his garbage uncollected. Civic services entail civic duties, but, from the beginning of taxation, there have been citizens who were willing that other citizens, whether they were better off or not, should pay their tax-bills for services which they and their family had presumably purchased or ordered and undeniably used. It is difficult to understand the psychology of a man who is ashamed not to pay his butcher's, grocer's or tailor's bill, but is not at all disturbed when he does not pay his taxes even though charged not according to the cost of services rendered but only according to his ability to pay. It is right to "temper the wind to the shorn lamb" but before the tempering begins it will be well to ascertain that the lamb is really a shorn lamb or hasn't grown a new crop.

As will be shown in the next section of this report, the health of the body politic demands the payment of taxes directly by as many individuals as possible. The receipt or non-receipt of a few thousand or few hundred thousand dollars in taxes is of comparatively small moment in itself.

IV. THE RELATION OF TAXATION TO CITIZENSHIP.

When one out of every two persons lives in a city it is to be expected that the majority of people would tend to lose the sense

of the huge cost in labor and money involved in supplying even the most necessary and ordinary city services.

If some morning it were discovered that the city water would be turned off for a week and the only way drinking water could be obtained was to buy bottles of sparkling spring water, which later would be discovered to have 2000 colon bacilli per C. C., many citizens would have the same sensation as if the sun were to fail to rise in the morning, and at the end of the week every one would rush to the tap at the appointed time to assure himself that it would again respond. What would happen if the garbage were to remain uncollected for a week in fly time? Or if the "white wings" were to take their two weeks vacation all at the same time? Or if the Health Department were to quit in the middle of an epidemic? Or the General Hospital to close its doors, the schools suspend operations, the friendly "Bobby" disappear from the corner and the business-like fireman be laid off for lack of funds? Such catastrophes would soon bring it to the consciousness of the most case hardened, that city services were worth something in spite of the almost fatal ease with which so many of them may be obtained. Familiarity breeds contempt and neglect.

So many of our citizens pay for these services so indirectly that their personal relation to the matter is rarely, if ever, brought home to them. Granted for the sake of argument that all pay indirectly. This is not sufficient for the security of the state. Where one's treasures are there will his heart be also—if he knows that he has treasures and that he has to work for them. A system of taxation which, without increasing the burden of those least able to bear a burden, would convert some of the indirect taxation to direct forms, which would send more people to the treasurer's wicket to get their own receipts, would work wonders in increasing the efficiency of citizens as citizens and consequently the effectiveness of governments as administrative committees of the people. 1.

Prof. A. B. Clark, of the University of Manitoba, quotes Gladstone's dictum that good finance consists more in the spending than the collection of revenue. If this be true, can the proposed incentive to increased efficiency be disregarded with safety?

V. THE MOST IMPORTANT TAXES AVAILABLE FOR PROVINCIAL AND MUNICIPAL PURPOSES.

A. General Principles.

The fundamental purpose of municipal taxation is to raise revenues to cover the cost of those services which the community demands. On account of certain well known by-products of taxation, such as its effects on social conditions, certain secondary purposes of taxation have been vehemently urged and vigorously debated. But the fundamental purpose is the raising of adequate revenue. It is generally admitted that the necessary taxes must be raised as equally as is humanly possible, with certainty, without undue inconvenience either to the collecting authority or to the contributor and with as low an

1. Cf. *Annals of the American Academy of Political and Social Science*, March, 1915. Article by Dr. T. S. Adams.

overhead of collection expenses as can be attained. A tax out of proportion to ability to pay, uncertain as to its productivity, leading to great friction in the machinery of collection, or producing too small net returns in proportion to the gross returns exacted from the taxpayer is a bad tax to the degree in which it offends. In addition to these general principles of taxation, the following principles should be kept carefully in view by any municipality contemplating changes in its taxation system:—

1. If at all possible, new machinery should not be set up.
2. National and provincial taxation, now in existence must be given due consideration.
3. Any proposals made must not be in violent disagreement with public opinion or disregard the stage of development that the taxpayers have reached in their conceptions of taxation reforms.

Any modern organized communities render three types of services, distinct in principle and essence, though overlapping in their benefits. These are:—

1. Services to property as property.
2. Services to individuals as human units.
3. Services to business.

It is conceivable that there may be a property in a municipality owned by an individual who neither resides in or does business in the municipality. The property receives benefits as a **physical thing**, benefits which accrue to the individual whose tax-paying faculty must be levied on to pay for the services rendered to the property.

It is conceivable that an individual may reside in a locality without either having any taxable property or engaging in any business. He receives certain services as a resident of the city, services to the cost of which he must contribute **as a person** at least according to his ability to pay.

It is conceivable that the city may have to render services to a business although the owner or owners of the business may own no real estate and may reside elsewhere. The business receives benefits, direct and indirect, **as a physical entity and going concern**, for which it must compensate the municipality which protects and promotes it.

This method of presentation is merely a device for illustrating the essential separateness of the services rendered to property as property, persons as persons, and business as business. Whether the persons concerned in all three are the same or different persons does not affect the principle. Because a man's business has paid a business tax if it were just in amount, is no reason that he should not pay a personal tax, say on net income, or because he has paid a personal income tax is no reason his real property should not pay a real property tax or vice versa. Granted the three taxes, there should be no offsetting the payment of one tax against another, though in determining the amount of any income tax, the amount of real property taxes should be one of the items deducted from the gross income in arriving at net income.

The three-fold basis of local (and provincial) taxation is suc-

cinctly stated in the "Preliminary Report of the Committee appointed by the National Tax Association to prepare a plan of a model system of State and Local Taxation," of which Prof. Charles A. Bullock was chairman and on which the staffs of two other universities were represented as well as four tax commissions. The statement reads as follows:—

"That every person should pay a direct tax to the government under which he lives, appears to us reasonable and just, that tangible property should be taxed, where located, is both reasonable and in every way expedient, and that business may be taxed in any jurisdiction where it is carried on, seems to admit of no serious doubt. .1

Municipalities are but creatures of the Province, set up to discharge certain functions which are within provincial jurisdiction. When and as municipalities are created, along with the burdens imposed, authority for raising the necessary revenues in a just and practicable way must be granted, or a sufficient share of provincial revenues must be distributed to make up any deficiencies. The relations between municipalities and provinces are always shifting and the relative fiscal values of various sources of revenue are always changing. As the centre of gravity changes there must be redistribution of burdens, or development of new sources of revenue, or both. Municipalities cannot be considered as units in themselves. They do not live unto themselves alone. Neither can the provincial position be isolated. Municipal and provincial institutions form one organism, between the parts of which there is real community of interest in spite of the often petty and always unreasonable wars between "the belly and the members." Provincial and municipal taxation in their larger features must be treated as a unit. Bearing this in mind this report will be based on the following position:—

1. Every person having taxable ability should pay some sort of direct personal tax to the Governments, provincial or municipal, under which he is domiciled and from which he receives personal benefits.
2. Tangible property, by whomsoever owned, should be taxed by or in the jurisdiction in which it is located, because it there receives protection and other governmental benefits and service.
3. Business carried on for profits in any locality should be taxed for the benefits it receives as business.

The allocation of the collection from these sources of taxation as between the Province and municipalities, and the apportionment of the resulting revenues, where such apportionment is just or necessary, must be determined in a spirit of goodwill by the jurisdictions concerned on the basis of proved needs, not in the spirit of "what we have we'll hold," and on a basis of relative power in competition for public funds. The important thing is not the so-called separation of the sources of taxation, but the coordination of the administration and collection of similar taxes. This is necessary to avoid duplication of

1. Page 7 of report issued September, 1918.

machinery, increased friction in collection and unnecessarily large costs of collection. 1.

B The Taxation of Property.

1. Intangible Personal Property.

The impossibility of directly taxing intangible personal property equally, certainly, conveniently and cheaply is notorious. The imposition of the same tax-rate as on real property has always resulted in injustice and inequality, and the imposition of a lower rate has had the same results in less degree, although in some cases where special devices have been used, the tax has been greatly increased in productiveness. The only practicable way to tax intangibles is through the income tax on revenue derived from them. This minimizes evasion and therefore gives more equitable results, besides removing a malign influence on the public morale. A direct tax on intangible personal property is entirely out of the question.

2. Taxation of Tangible Personal Property.

Everywhere the direct taxation of tangible personal property has disappeared, is disappearing or is doomed to disappear. The business tax, on one of its several bases, or the income tax, or both, is surely replacing it.

The first report of the B. C. Board of Taxation, April, 1918, contains the following in its section on the Personal Property Tax:—

"The inequality of the value of the personal property used in the different lines of production to produce equal values is too well known to need pointing out, and as it is the value of the things produced and not the value of the means used in the production that gives the 'ability to pay,' it is the former and not the latter which should be the basis of taxation in order to make it equitable.

"And it is equally well known that the movement of goods from the producers or manufacturers to the merchants and traders and through them to the consumers, is so different as between one kind of goods and another that to tax the producer or manufacturer or the merchant or trader on the value of the goods the Assessor **may happen to find** in his possession at one period in each year is so manifestly unfair that to pursue it is an offence to all sense of justice, and points to the taxation of profits made by those engaged in the production and distribution of the goods as the most equitable system of taxation."

Prof. Edwin R. A. Seligman in his presidential address before the ninth annual conference of the National Tax Association, said: "It is obvious . . . that it would be every way desirable to abolish entirely the taxation of personal property and to have the income tax serve as a substitute therefor."

Professor Haig in his report to the Board states with regard to the Provincial Personal Property Tax that, "exemptions have been granted so liberally as to reduce the tax on personal property from a

1. Cf. Annals of American Academy of Political and Social Science, Article on State and Local Revenues by Dr. T. S. Adams, then State Tax Commissioner, Madison, Wisconsin, March, 1915.

general tax to what is practically mainly a tax on stock-in-trade," i.e., a very inequitable business tax. Its status as an alternative to a tax on net income does not remove the inequity of the tax. It is evident that the municipality cannot look to an extension of taxation on personal property, either through taxation of categories exempted by the Province or an additional levy on those already taxed. This would only be adding insult to injury. At the same time the services rendered to personal property by city services such as fire and police are very real. Business should therefore pay the municipality some equitable substitute for a personal property tax. The basis of this tax should be net income. If a business has no net income it will soon cease to be a business. But, if it is felt that some payment should be made even by unproductive or dying concerns, a minimum payment can be established for the business tax. This would be much fairer than the existing tax on personal property used in business.

3. Taxation of Real Estate.

a. Real Estate the mainstay of Civic Finance.

As the report of the Manitoba Assessment and Taxation Commission (1919) tersely states:—"Both abstract reasoning and historical experience justify the conclusion that the mainstay of the local revenue system must be the real property tax." In his address on "Municipal Taxation of Intangible Wealth," before the National Conference on State and Local Taxation, 1907, Prof. Hollander, of John Hopkins University, stated: "Insofar as property . . . means real estate, that is, land and improvements, there is no serious divergence between the experience of practical administrators of municipal affairs and the opinion of careful students of municipal economics. The sentiment of both is . . . that the equitable assessment of real estate is the very foundation of the city's credit and the basis of the economic welfare."

It is the opinion of the writer that inasmuch as real property taxation has a purely local basis, is best administered locally and is the sheet anchor of the security for local indebtedness, it is and will continue to be the main reliance of municipal finance.

b. Rental Values vs. Capital Values as the Tax Base.

As to the substitution of rental values for capital values as a basis for taxing real property, the writer can best state his views by quoting the following extract from a communication of Professor Bullock to Chairman Wood of the Manitoba Commission: "Your levy is on the value of the land and not upon the annual rentals, and this is by far the best method of taxing land and buildings in such countries as Canada and the United States." The Manitoba Commission states that it "cannot in view of the fiscal history, existing conditions and prevailing ideas of the Canadian people, advise a departure from the present system under which real estate is assessed for taxation on its capital value."

c. Exemptions on Assessed Value of Improvements.

As to the reduction of the exemption on improvements, the writer believes that, at least under existing conditions, this would be a mistake and would work injustices in certain cases, inasmuch as many properties were erected under a condition of complete exemption of improvements, a condition which quite excusably builders and purchasers regarded as permanent. In such cases the buyer of property

would not have received the full benefit of the theoretical reduction in the purchase price due to the capitalization of prospective taxes and he would have to bear not only that part of the taxes which he had anticipated and provided for in the purchase price, but that part of the taxes which he did not anticipate and made no allowance for. It is beside the mark to say that there was no contract that the base of taxation would not be changed. There is an element of moral obligation in the matter which can not safely be lightly set aside. To any bad guesses as to the increase in tax-rate on the basis of assessment existing at the time of purchase, the rule "caveat emptor" applies.

The argument for increase or non-reduction of the exemption based on the "penalization" argument has not the weight that is sometimes given to it. A similar argument can be applied to business taxation, excess profits taxes and even income taxes. The argument has been overworked. It is of course true that taxation should be equal and just, but to the degree that real estate taxes are "beneficial" taxes, the question of penalization of enterprise which leads to general municipal benefits should not be raised. Insofar as they are "onerous" and in proportion to faculty, there is no just basis for the demand for further exemption. A man is not penalized, even if he has done much for his city, when he pays a just price for food or clothing. He is not penalized when he pays a just proportion of taxes to keep up city services. Every citizen contributes to the building up of the city—or at least he should—and has no just claim to partial exemption from taxation on that account. The city has done as much for him as he has done for the city—always granted normal conditions. If the city were to stop taxing everyone who contributes to its well-being, municipal revenue would disappear.

Neither should a contemplated broadening of the tax base be put on the basis of sympathy for or justice to the property owner, but on the broad grounds of public policy. Not what is good for the property owner, but what is good for the body politic, should be the deciding factor. The same argument is applicable to any object of taxation. The undue consideration of personal, sectional or special interests can only obscure the real issue and militate against the just and efficient solution of local taxation problems.

Some legislative remedy should be found by which Government property in a municipality—Dominion or Provincial—should not remain entirely free from taxation. There does not seem any sufficient reason why a post office building should entirely escape paying for such services as police and fire while an express company building is assessed for these and other services. This is, of course, a nationwide and even world-wide condition. A little consideration will show that the taxation of government property does not involve simply changing money from one pocket to another.

It should be borne in mind that a joint Provincial-Municipal Income Tax, insofar as this would affect the net income from real estate, would tend to compensate for the exemption of a part of the assessed capital value of improvements from taxation.

d. The Injustice of Inequitable Assessment of Real Property.

Whatever the local experience in the matter, the most common

general complaint everywhere is not so much that real estate as a whole is unfairly taxed but that assessments are frequently unequal as between different properties.

The complete equalization of assessments would, in many cities, remove a large percentage of the justifiable complaints of property owners, entirely apart from a reduction in the tax rate. It should go without saying that Courts of Revision should be entirely independent of the city administration as far as this can be effected.

In general, taking the country as a whole, local assessment departments are handicapped by insufficient expert staffs or by inadequate salaries or by both. It is the conviction of the writer that entirely satisfactory conditions will not be universally attained until each province establishes a permanent commission of assessment and taxation made up of full-time specialists, entirely removed from politics, said commission being given the necessary machinery to act in an advisory and supervisory capacity to local assessment departments. As will be set forth later, these commissions would also be the executive departments of the Provincial Governments for the administration of their revenue-producing machinery and their advisors as to reforms in taxation and assessment. 1.

e. The Shifting and Incidence of Real Property Taxation.

An excellent summary discussion of the "Shifting and Incidence of Taxation" is to be found in the report of the Manitoba Assessment and Taxation Commission (1919, pp. 64 to 68). The whole problem is complicated and impossible of adequate treatment in this report, but is so important that references must be made to the opinions of those having the best right to have opinions. The basis of the references herein contained is the Manitoba report. It will be necessary to quote from it to illustrate also what is meant by "beneficial" and "onerous" taxation.

Quotations from the Report:

"The services which our municipal governments are called on to perform, fall, broadly speaking, into two distinct classes or groups: specific and general services, respectively.

"The first class includes those services which . . . mainly concern the inhabitants of the locality, and which confer on the local taxpayers as a whole a direct and peculiar benefit . . . to the groups who benefit from the expenditure on water supply, fire protection, public lighting, cleaning, drainage, provision and maintenance of streets and sidewalks, or public parks.

"The chief gain of local expenditures accrues to those who own property in the district. Some advantages may be more evident in their effects than others, but in a broad general way, the advantage of a locality means an advance in the rent of its area.

"But other classes, as well as real estate owners, share the benefits of local expenditures. Next to the owners of land and houses in

1. See reports of the British Columbia Board of Taxation. Pages 20, 25, 31, 118.

this respect are those engaged in permanent occupations in the locality. The real estate tax should therefore be supplemented by a business tax, in the shape of a real tax, rather than a personal tax.

"When we turn to the second class of services rendered by the municipal government, those of a general or national character, such as education, poor relief, police protection, public health administration and the administration of justice . . . the doctrine of taxation in proportion to service becomes wholly inapplicable . . . services of this class are not primarily of an economic character, and the benefit accruing from them is not confined to the residents of the municipality that furnishes them but is more or less diffused throughout the nation. They must therefore be provided for by the imposition of taxes in their nature **onerous** to the local taxpayer; and for the equitable distribution of such burdens, taxation in proportion to faculty or ability to pay is the recognized ideal.

"In general, in distributing the burden of even 'beneficial rates' between individuals, recourse must be had to the fundamental principle enunciated by Adam Smith's famous 'Canon of Equality'—the principle of taxation in proportion to faculty or ability to pay.

"The present holders of real property have bought it subject to the tax burden, and in the price paid for it they have doubtless taken into account not merely the actual value of the tax at the time of purchase, but the discounted value of any expectation of a rise in the rate. To that extent they do not bear the burden of the tax, and are merely paying in instalments as taxes what they would otherwise have to pay in the shape of a higher price for the property . . .

"That part of the real property tax which falls as an **onerous** tax on building value, as distinct from the value of the site, and which is really a tax on the ordinary profits of the building, will if balanced be a corresponding tax on other species of income, tend to rest on building profits . . .

"On the other hand, a tax on building value not so balanced, is a tax on a particular species of property or income and will tend through the withdrawal of capital from building to be shifted in the form of a rise in rent to the tenant and occupier of the dwelling-house or business premises; and in the latter case, ultimately to the purchasers of the goods or services supplied, through a rise in their price.

"But insofar as the real property tax is an **onerous** tax on land value apart from improvements, it rests on the owner of the land. It cannot be shifted to the tenant or occupier by raising the rent, so far as this is determined by competition. The competitive rent paid by the tenant for the rise of the land is the measure of the differential advantage he thereby obtains, and an **onerous** tax can have no tendency to increase the advantage . . .

"Nor could owner and occupier together, in the case of business premises, shift the tax on site value to the consumer of commodities or services supplied, for that would mean that they could make a monopoly price, in which case they would have done so before . . .

"Insofar, however, as the tax on land value is a beneficial or

remunerative rate, the expenditure of the revenue it yields enhances the differential advantage of the site, and the tax is thus ultimately paid by the occupier, but is no real burden to him.

... It follows (on the above principles, applied to recent conditions in Canada) that the tendency has been for the tax on building value to be borne by the occupier. So far as the rate is **beneficial**, it is again no real burden on the occupier, but it is otherwise so far as the rate is **onerous**."

In any event, "The extent to which the burden of the tax can be shifted to the tenant at any given time, depends on the demand for, compared with the supply of buildings."

It may be said that even granted that the occupier pays a large part of the tax through his rent, a relative decrease of this tax through the imposition of personal income and business taxes, will tend to decrease the amount of tax the tenant pays through his rent as the amount of his direct income and business taxes increases. It represents the conversion of a portion of indirect taxation to the direct form and constitutes in so far a direct benefit to the body politic through the resulting psychological and educational effects.

C. Business Taxes.

Business taxes may be divided into the following groups:-

1. Licenses, graded or ungraded.
2. Taxes on space occupied.
3. Taxes on value of premises occupied.
4. Taxes on rental values.
5. Taxes on gross earnings.
6. Taxes on net revenue.

1. Licenses.

These can hardly be considered as taxes unless they are administered as minimum payments of a business tax. They may be necessary in some cases for purposes of municipal control and may be very useful in the cases of transient traders or temporary business undertakings. In themselves they are entirely inadequate for the purposes of business taxation.

2. Taxes Based on Space Occupied.

It needs no special inquiry to convince anyone that this is an inequitable form of taxation even when the rates are varied, for different types of business. It has little relation to ability to pay or even to the amount invested in the business or to the value of the real or personal property used. It should be imposed only as a last resort.

3. Taxes Based on Value of Premises Occupied.

As in other forms of this tax, this form is frequently intended as a substitute for a tax on personal property used in business, and is supposed to approximate a tax on net income. In fact, the system may provide that which ever would give the greater return to the city, should prevail and be the tax imposed. This form of tax is, of

course, a great improvement on the personal property tax, but its crudity and inequality from the standpoint of ability to pay is manifest, even when different kinds of business are taxed on different percentages of the value of the premises occupied. This has been pointed out so well and at such great length by recent reports of tax commissions that further comment is unnecessary.

4. Taxes on Rental Values.

This is a great improvement on preceding forms, but offers no adequate measure of relative ability to pay, amount of capital invested or even services rendered to business by the community. The recent report of the Manitoba Commission does not recommend its retention after 1920. The business tax on a basis of a percentage of rental values (not rent actually paid) should be adopted only in case conditions over which the municipality has no control prevent the adoption of a more equitable form of business taxation.

5. Taxes on Gross Earnings.

This method has some distinct advantages over those previously treated. In his discussion of "Taxation of Public Service Corporations," Prof. Adam Shortt states: "Where net income can be ascertained, it is in many respects the best basis for taxation (for corporations). Net income, however, is very difficult to determine from year to year with sufficient accuracy for purposes of taxation. . . . There is . . . little or no dispute as to what are gross earnings, and as taxation has as legitimate a claim against gross earnings of a corporation as any item of operating expenses, it is not unjust to deduct the taxes from gross earnings even where no net earnings remain."

While as Prof. Shortt says, it may be "almost impossible to discover the gross income of an ordinary business man," under existing conditions, it is possible that means might be found to use the gross earnings, gross receipts or annual turnover of businesses other than public service corporations as a basis of business taxation where it is impossible to secure a business tax on net business income. The great differences in rates of turnover and percentages of profit on turnover reduce this form of tax to a second-best substitute for a tax more in accordance with ability to pay.

If an average proportion between gross receipts, gross earnings or turnover and net profits could be established, a percentage of taxation on these could be arrived at which, on the whole, might not be out of proportion to net income. In the judgment of the writer, granted that such a proportion could be established, and further granted that the tax return could be estimated with sufficient accuracy, this form of business tax should have precedence over a tax on rental values. There can be no doubt, however, that the administration of a tax on rental values would be much easier and much more certain from the standpoint of productivity.

6. On Net Income.

The preliminary report of the committee of the National Tax Association on a "Model System of State and Local Taxation" makes the following statement: "The committee has come to the conclusion, therefore, that the proposed business tax should except in certain cases be levied upon the net income derived from business carried on

within the State levying the tax."

It goes without saying that a business tax on net income, even when its returns go to the municipalities, should be levied and collected by the Province, because it has the necessary information for checking returns and has already built up a machinery which should be adapted for its collection. Any other plan would lead to duplication of effort and machinery and would reduce the net productivity of the tax.

The Province of British Columbia levies in its income tax what is practically a combination of a personal income tax and a business tax. There is a fundamental difference between the personal income tax and a business tax levied on net income. One is on the person, is theoretically in proportion to tax-paying ability and is therefore properly subject to the progressive principle, larger incomes paying a higher percentage than smaller incomes. The other is a tax in rem on the product of a business, not on the person or persons who own the business, and is in return for the various public services which make the business possible. It is as direct a charge on the business as an electric light bill or a bill of goods, and must among other items be deducted from the gross revenue in arriving at the net revenue. It should not be a progressive tax but should be levied at a definite percentage rate, or at most there should not be more than two rates, one for businesses in which the owners are the managers of the business, in which case the rate might be, say, one per cent; and one for businesses, mostly corporations, in which the management is employed by the owners or stockholders, in which cases the tax might be at the rate of, say, two per cent. 1. **The net revenue after the deduction of the business tax would of course be subject to the personal income tax after the distribution of profits or dividends to the owners of the business.** If all such owners were residents of British Columbia, the Government would lose nothing but would gain rather a large part of the return of the business tax, as the loss of the steeply graded business income tax would be largely compensated for by the taxation of the funds set free to personal revenues. If the Government cannot afford to lose the taxes on any dividend to persons living outside the province, even when they may be subject to an equal tax on the same dividends in other provinces, the **personal income taxes on dividends and profits may be collected at the source, dividend cheques being sent out with statements of the total dividends due with the deduction of personal income taxes thereon.** The province would therefore suffer no appreciable loss in its net revenue from the income tax. In cases where such dividends were the only or main support of the recipients, and it should appear that as a result of collection at source, the full value of the legal income exemption had not been given, rebates could readily be extended on presenting the

1. Prof. Haig in his report incorporated in the "Reports of the British Columbia Board of Taxation," (1919) writes: "... in the opinion of the writer, sound policy, under the peculiar conditions present in British Columbia, lies in the direction of a greater degree of uniformity in the rates applying to corporations. Of course, the lower the general level of rates, the more attractive will be the Province as a field for the investment of capital in enterprises of development." The same argument holds good, perhaps in less degree, for incomes derived from businesses not incorporated. A summary of the arguments for and against lower rates for corporate incomes in comparison with personal incomes is also to be found in Prof. Haig's report (p. 108).

proper vouchers to the Government authorities.

The writer has written at some length as to the business tax only because he believes that the greater proportion of a proper business tax should be made available to the municipalities who provide the greater part of the direct services to business, and because he believes that business as business, not simply as the producer of personal incomes, **which should be taxed separately after the deduction of the business tax**, should be taxed for the public services which make business possible. Real property, persons and business are separate taxable entities and should be treated on an entirely distinct basis; real estate on the basis of capital value, persons on the basis of income from **all sources**, through a steeply-graduated tax, and business through a tax on net-income, at a low flat percentage rate (or, perhaps, two such rates as above set forth). In the case of personal income, taxes paid on real estate and interest on debts incurred for meeting personal expenses, when proved to the satisfaction of the authorities, should be deducted from the total income before calculating the income tax. In the case of the business tax, taxes on property should be deducted from the gross income, but interest on invested capital, in the judgment of the writer, should not. ¹ Other deductions should be such as a competent chartered accountant would allow. These can readily be agreed upon and incorporated in the law.

The writer recommends, that a business tax as described above, be levied on all business incomes earned in the province as a first charge on the net income as defined by a just law, that such business incomes be subjected to no further tax, that at the distribution of dividends or profits, the personal income tax on such a dividend or profits be collected at the source, such adjustments as may be required being made later on application, and that such business tax be regarded as a municipal tax, all the net proceeds being distributed to the municipalities by the province on some mutually agreeable basis. In case the province is not willing to impose the proposed tax, but is willing to give the municipalities authority to impose some form of business tax, such tax would necessarily take the form of a tax on turnover or rentals. Such an arrangement, however, could be nothing but a makeshift which a spirit of co-operation should render absolutely unnecessary.

D. Income Taxation.

1. The Direct Tax on Income.

British Columbia, in the extreme West, shares with Prince Edward Island, in the extreme East, the distinction of having provincial income taxes. The right to collect income taxes is exercised widely by municipalities in other parts of Canada, some under general legislation and some by special charter.

The gradual extension of the income tax in cities and the efforts made to increase its productivity are evidences of the increasing strain under which municipal finance everywhere labours. It is one of the manifestations of the world-wide effort to broaden the tax base.

¹ See p. 18 of "Reports of Board of Taxation," stating its position and quoting Prof. Seligman.

While the provinces of Canada were given the right of direct taxation within their boundaries in order to raise revenues for provincial, local or municipal purposes, it was long hoped that Dominion subsidies and other revenues would make the imposition of direct provincial taxation unnecessary. But the strain of increasing burdens was soon more than could be resisted. British Columbia began to impose the Wild Land Tax in 1873 and the Real Estate Tax in 1876.

When the province established municipalities, it turned over to them the tax on real property within their own limit. This tax under semi-rural or town conditions was quite adequate. As the needs of the province increased it was forced to seek new sources of revenue among which is the Provincial Income Tax, which in 1905, produced about \$72,000, but in 1919-20 was estimated to produce \$1,600,000. But, paralleling the increased needs of the province were the increased needs of the municipalities, which, unlike the province, could not of their own motion uncover new sources of revenue. Yet the policy of the province of turning over the real estate taxes to municipalities was not followed in the case of the income tax, although comparatively large payments from the Consolidated Fund have been paid to the local authorities for such purposes as schools and hospitals. Considering that the strain put on the municipalities by changing conditions is at least equally great with that of the province, and considering the huge increase in the revenue from the Provincial Income Tax, which is raised from citizens and business organizations enjoying local as well as provincial services, the question might well be raised whether the province might not with advantage to all concerned set aside a considerable percentage of the income tax, as at present existing or as proposed herein, to be distributed among the municipalities on some agreed upon basis?

If the province were establishing to-day its first municipal institutions, would it turn them loose in the world with no more than the present statutory sources of revenue?

The Province and municipalities are fortunate in that the income tax in British Columbia originated as a provincial tax. Experience shows that an income tax administered over a limited area cannot be an unqualified success.

It has become more and more impossible everywhere to adhere rigidly to the separation of sources. More and more all grades of government have to resort to the same sources, and the coordination of the administration and collection of taxes is growing rapidly in favour. Dr. Kosuth Kent Kennan in the *Annals of the American Academy of Political and Social Science*, March 1915, writes that the Wisconsin State Income Tax is not a state tax except in administration. "The Law provides that the money raised by means of the tax shall be apportioned in the proportion of 70 per cent. to the local taxing unit (city, village or town) where it is collected, 20 per cent. to the county and 10 per cent. to the state." While the 10 per cent. was supposed to cover the cost of administration it has much more than done so.

The preliminary report of the Committee of the National Tax Association, 1918, states that "... if the revenue from the income tax is distributed wholly to the local units, as is now the case in Massachusetts, the lightening of the local burden tends to reduce the pressure of the direct State tax. It seems probable that in most cases a division of the revenue would be considered preferable; and in such

cases we suggest that the State Governments might well retain a proportion corresponding to the proportion which State expenditures bear to the total of the State and local expenditures" (The objection to this mode of distribution is its tendency to stimulate expenditures).

It is evident, of course, that the cases are not parallel in that British Columbia is a newer community with a huge undeveloped area to take care of, that her real estate taxes do not apply to the whole province, and that she gives unusually large aid to such local activities as schools and hospitals. On the other hand, she has extremely large revenue from real estate, personal property and public domain—sources which are negligible or absent in some provinces, but which were estimated in British Columbia to bring in over \$2,500,000 in 1919-1920. It is clear that there is no insuperable difficulty in carrying on Provincial administration along with partial distribution for local purposes. It is the opinion of the writer that this should be done in British Columbia. It is to the interests of the province as a whole that those paying the personal income tax, but no other tax, should realize the burden of local expenditures and their duties as citizens of the various municipalities.

In this connection it may be said that, where it can be safely followed, collection from the individual person and corporation with information at source is more educational than collection at source and information from the individual. In any event, statements of receipt should be sent to each tax-payer containing a clear statement of the definite proportion of the total income tax revenue to be assigned to provincial and municipal purposes respectively.

Inasmuch as the essential purpose of the personal income tax is to secure from **all persons** fair contributions to the community's expenses in proportion to ability to pay, there should, in fairness, be no exemption for any grade of Government employee—Provincial or Dominion. The necessary steps to make this possible should be taken.

2. A Minimum Income Tax or Service Tax as a Substitute for the Poll Tax.

It is so desirable that all citizens who possibly can should contribute to the schools, hospitals and other public services, that the poll tax has remained as part of the Provincial System until now. While all admit that the tax is undesirable if the stage of fiscal development is such as to justify its abolition, it is doubtful whether this should be done at least without the substitution of a tax of a somewhat similar nature, but incorporated with the income tax as a minimum income tax. Probably the best name for such a tax would be "Service Tax." This would contain a suggestion as to the purpose of the tax and would be much more intelligible than the term poll-tax which long ago lost all meaning for most persons. The amount of the service tax might be placed at \$5 and made applicable to the employed of both sexes.

Services taxes might be collected at source by employers and turned in to the Government, special cancelled stamps in each case being given to the tax-payers so that they would clearly understand the nature and purpose of the tax. .1.

1. Note Prof. Haig's remark re the poll-tax in the "Reports of the Provincial Tax Commission." P. 113.

3. The Habitation Tax.

In countries where there is no tax on capital values of real property, a tax on the rental values of habitations is logical and readily defensible. In countries where there is already a tax on the capital values of real estate, a habitation tax based on rental values, although paid by the tenant, is difficult to explain. Its name condemns it. Rental value taxes of any sort are but crude, indirect attempts to get at ability to pay which is best measured by net income. They are indirect income taxes based on incomplete evidence. Many persons occupying habitations of some sort are absolutely without tax-paying ability. Others live in homes much less expensive than their incomes would justify. The question need not be laboured. Why not give up all round-about methods. 1.

E. Motor Vehicle Taxes.

The automobile tax is almost universally regarded as the perquisite of Provincial or State Governments. When earmarked for roadways it is usually spent for the most part on country roadways or Provincial or State roads. In the main this has been a correct policy. It is the opinion of the writer that the time has arrived when a considerable part of the revenue from this tax must either be spent by the Government on strictly municipal roadways within municipal limits, thus reducing local obligations, or be turned over to the municipalities. The huge growth of motor traffic, particularly commercial motor traffic in the cities, has brought about a complete transformation in the road-way problems. The cities have had no way of coping with the situation other than placing heavier burdens on their existing sources of revenue. They have not been able to make the activities causing the extra expense bear directly a part of the load. It is of course right that the cities should bear a large part of the cost of road-way deterioration in the country, but it is the opinion of the writer that at least 50 per cent. of the revenue from automobile licenses arising in the city should be refunded to the city by the province. The remaining 50 per cent. would be available for rural purposes in addition to the total amount raised by this tax in rural areas. It is to be noted that the "Report of the Joint Committee on the Broadening of Municipal Taxation," adopted by the City Council on February 24th, 1920, suggests the payment of 75 per cent. of the automobile tax to the city.

F. The Amusement Tax.

The Amusement Tax is on a somewhat different basis. Patrons of motion picture houses tend to gravitate to large cities for their amusement. Theatres, other than motion picture houses, are all to be found in the larger centres. Thus in the larger cities there is collected a much larger proportion of the amusement tax than is really contributed by their citizens. On the other hand, the city's facilities are used by the patrons of the theatres, and the city on account of amusement houses is perhaps under considerable extra expense for the protection of persons and property. While, therefore, allowance will have to be made for the condition above described, the writer believes that

1. See preliminary report of the National Tax Association Committee on a "Plan of a Model System of State and Local Taxation." Also Cf. "Next Steps in Taxation Reform." Prof. Seligman.

it is not unreasonable to expect the return of 50 per cent. of the amusement tax to the municipalities in which the revenues arise. The retention of the remainder by the province will tend to equalize the burden over the whole province.

Prof. Haig, in his report above referred to, states that, "that in view of the great assistance extended to municipalities by the Provincial Treasurer, the application for the remission of a portion of the motor-vehicle fees and the receipts from the amusement tax is probably not worthy of favourable consideration in the present exigency. It is the current practice in all of the provinces with which the investigator is familiar to consider the motor licenses peculiarly a provincial source of revenue. In the United States the City of New York has recently secured the remission of a portion of the fees, but it is decidedly an unusual practice. Alberta rebates none of the amusement tax to municipalities. Quebec, it is true, gives a certain amount of it to Montreal, but this is because Montreal already imposed an amusement tax which was incorporated into the municipal system." It is to be borne in mind that since this was written the Provincial revenues from direct taxation on residents of municipalities has increased greatly, and to that extent the argument based on the existence of provincial grants is weakened. Again, is not the very fact that recent instances of rebate have occurred in Quebec and New York, an indication of a change in the practice heretofore general? That Montreal had an amusement tax before is immaterial. If Vancouver had had such a tax before, undoubtedly on the establishment of a provincial tax, Vancouver would not have been deprived of a share. In taxation the dictum that "Finding's Keeping," is largely honoured. The only corrective, where a corrective is necessary, is joint conference between the authorities concerned with mutual goodwill and open minds.

G. Special and Miscellaneous Revenues.

An attempt was made to draw up a comparative statement showing the percentages that the revenues other than taxation are of the total revenue for a number of Canadian and American cities. Municipal accounts and municipal reports are so unstandardized, cities vary so extensively in the number of public service enterprises they control, and the tendency to mix up the revenue and expense statements of public service enterprises with those of the regular city departments is unfortunately so common that the attempt was reluctantly given up. Such a study would involve months of careful research and analysis, but will be undertaken later by the Citizens' Research Institute of Canada. The results will be made available to the people of Vancouver.

A comparison has been made of the rates charged for licenses in Vancouver and Toronto. In most cases the charges are identical or fairly equivalent for similar services, and in some cases the Vancouver rates seem to be higher. On some items the charges might justly be increased. The writer recommends that the system of licenses and fees, as well as rents and charges for special services, be revised in the light of local conditions and experience. For example, the division of the city into three districts with three different rates of rent for space underneath sidewalks used by private firms should be considered.

H. Penalties for Slow Payments and Bonuses for Prompt Payment of Taxes.

The writer is in entire accord with the position taken on this subject by the Provincial Board of Taxation, 1919. The report reads as follows:

"The Board is of the opinion that the system of allowing a discount or rebate for the payment of taxes is wrong in principle and cannot be justified."

A tax-payer either owes the city the amount of his tax bill or he does not. If he owes it, he should pay it, less bank discount only for prepayment.

If he does not owe it, he should not be asked to pay it. Any other policy gives an added handicap to the man who is temporarily not in a position to pay, over and above the prescribed penalty for delayed payment. "Unto every one that hath shall be given, but from him that hath not shall be taken away, even that which he hath," can hardly be defended as a rule of practice in this case. The man who delays payment, not because he has to, but in order to make the city help finance his business, can be dealt with adequately by imposing a flat penalty of 5 per cent. and a monthly interest charge of 1 per cent. until his civic debt is paid. This tends to suit the punishment to the damage done. The present system is on a par with a practice that is said sometimes to exist of marking up goods eleven per cent. in order to be able to give a ten per cent. discount. The effect on the morale of the community cannot fail to be bad.

1. The "Unearned Increment" and a Capital Fund.

It is of course impossible here to enter on a discussion of the meaning of "Unearned Increment" or a standard for measuring it for taxation purposes. The recent report of the Provincial Board of Taxation deals with the matter from one point of view. Legislation of other provinces also throws light on the matter. It is sufficient to say here that the writer believes that use should be made of so-called unearned increments of value, which are really additions to the capital value of the land. He believes further that a capital fund should be established into which should be directed all the levies made on the unearned increment and that this fund should be used solely to finance capital expenditures. The percentages applied should be moderate, as frequently there may be a "decrement" rather than an increment. As there is no way by which a government could possibly compensate for decreases, sound public policy requires that a sufficient margin of increment be left to the individual to enable him to meet any decline in value he may meet later. On the whole, as the population increases the increases in value will far outweigh decreases, and it is just that communities should appropriate a considerable share of the net increase.

The Provincial Government has the necessary machinery for the collection of this tax, but its returns in cities and districts should, of course, be credited to the communities where the unearned increments arise. The reader should consult the article on "Municipal Taxation in Relation to Speculative Land Values," by Prof. Adam Shortt, which is contained in the "Annals of the American Academy of Political and Social Science," March, 1915.

VI. The Co-operation of Governing Bodies in Tax Collection and Distribution.

One of the ways in which governments can co-operate in tax collection is the interchange of information. Such interchange between the Dominion, Provincial and Municipal Governments should be a matter of course. The one most liable to lose thereby would be the tax-dodger, and the one most liable to gain, the meticulously scrupulous taxpayer. All that is necessary for the protection of legitimate interests is the mutual secrecy of the information as far as the non-interested public is concerned, and a spirit of fair dealing on the part of governments and their officials.

The 1918 report of the North Dakota Tax Commission states that "a number of States, most notably Connecticut, are levying a small tax-rate on incomes based on reports to the Federal Government (sent in duplicate to the State authorities by the tax-payer). Prof. Seligman speaks with favour of this system. There is no good reason why the several authorities should not be able to compare reports.

The difficulties in the way of co-operation in tax distribution are greater; but the principle has already been acknowledged by Dominion sub-ventions to the provinces, by Provincial sub-ventions to school boards and in other ways.

The Wisconsin State Income Tax is an outstanding example of such co-operation. According to Thos. E. Lyons, writing as a member of the Wisconsin State Tax Commission as early in the history of the state tax as 1915, "The average cost of the Wisconsin Income Tax is about 1.2 per cent. of the amount assessed, making it one of the cheapest taxes known."

Co-operation in the collection of the various income taxes should be productive of great savings in overhead through the elimination of duplicate machinery and would result in greater net tax returns. No business organization could afford to lose a similar opportunity. Only organizations which have the power to replace losses through the tax rate could afford to do so.

In addition to savings in overhead a standardization of income tax returns to be filled out by the tax-payer would remove considerable irritation and would obviate great loss of time.

The writer is convinced that scientific taxation in the Dominion can make no adequate advance until a regular system of joint conferences between the Dominion, Provincial and Municipal Governments has been initiated and carried to its logical conclusion.

Whether the Dominion can be induced to enter into this field of co-operation or not, British Columbia, Vancouver and the other cities of the Provinces can lead the way in advanced intra-provincial co-operation. In fact neither the Province nor the Municipalities can afford to do otherwise. The personal income tax and the business net income tax afford the most logical fields. **Vancouver must have revenue from personal and business incomes, directly or indirectly.** The direct method is most economical and more just, but this can only be obtained by provincial administrations and co-operative distribution. Whether or not the Province in adopting this policy will have to increase the amount of the provincial income taxes has no bearing whatever on the principle involved. Can the Province and Municipali-

ties afford to adopt make-shift methods which are always expensive and in the long run unfair?

To ensure effective co-operation a permanent Provincial Commission of Assessment and Taxation, made up of permanent experienced officials should be appointed at once. It should not only be given the administration of the collection of all Provincial and joint Provincial-Municipal taxes, but should be the recognized advisor of both the Government and the Municipalities as to improvements in taxation and assessments. In fact, it might act as a board for the equalization of assessments of real property throughout the Province.

VII. Summary of Presentation.

1. There is no royal road to ideal municipal taxation. The solution of taxation problems must be progressive. When civilization dies, there will be no taxation problem.

2. Municipal and Provincial Taxation cannot be considered separately. Indeed the interrelation of National, Provincial and Municipal Taxation cannot approach an adequate solution without continuous conference and cooperation between all grades of Governments.

3. Vancouver as a municipality has too few sources of revenue. Although citizens of Vancouver contribute to combined governmental needs on a broad basis of taxation, the health of the municipal body politic demands not only that every citizen, having tax-paying ability, shall pay taxes but that he shall realize that he pays taxes to the city. **Every citizen who is able to contribute should be the possessor of a civic tax receipt or some equivalent thereto.**

4. There are three and only three main "objects" of taxation,
Property as property
Persons as individual human units
Business as business,

and these three "objects" correspond to three distinct types of service rendered by the community to these "objects" which should contribute to the community funds partly according to benefits received but mainly according to ability to pay.

5. Tangible and intangible personal property can be taxed effectively only through the income arising from their use.

6. Speaking generally, and without direct reference to Vancouver, unequal assessment may cause more injustice to individuals than does high assessment to property owners in mass.

7. Courts of Revision should be independent of the City Council.

8. All taxes to raise revenue for current expenditures must come out of current personal and business incomes whether levied on capital values or not.

9. The chief direct services rendered to business are rendered by the local community. Hence the proceeds of any business tax should for the most part find their way into the treasury of the municipalities, where the business to be taxed is carried on.

10. The business tax should not be on a graduated basis, but should be, say, on a basis of one percent on the earnings of businesses in which the owners are also workers or managers, and, say, two percent, on the earnings of corporate businesses where the stock-holders have little or no personal share in producing the revenue. It may and probably will be found necessary to make the rates two and four percent instead of one and two percent respectively.

11. All net revenues from business after the deduction of the business tax should be regarded as personal income and taxed at the source according to graduated rates, all exemption difficulties being straightened out later on personal application. The double taxation which may result on incomes belonging to non-residents of the Province cannot be avoided until reciprocal arrangements have been made as the result of conferences as above suggested.

12. The imposition of a Provincial business tax as suggested would not appreciably affect the returns from the provincial income tax as the proposed personal income tax would have almost as broad a base as the present tax on personal and business incomes. Naturally, the joint returns of the proposed personal income and business net income taxes will greatly exceed the returns from the present provincial income tax.

13. A sufficient percentage of the returns of the proposed Provincial personal income tax, or, if the proposal be not adopted, of the existing income tax, should be paid over to the municipalities to ensure for Vancouver as well as other cities a share large enough to alter appreciably the existing incidence of municipal taxation. Every Provincial Tax receipt for income and business taxes should contain a statement as to what percentage of the total revenue from these sources goes to the municipalities, in order that every such tax-payer would realize that he contributes to the support of municipal services.

14. In case the Province is unable to dispense with flat rate taxes on persons, the poll-tax as such should be abolished, and a service tax of say five dollars substituted. This tax should be linked up with the income tax administration as a minimum personal income tax. The increased revenue from this source should be turned over to the municipalities at least to the extent of fifty percent of the total returns therefrom. In fairness, all incomes above the statutory exemptions should pay at least the amounts set by the service tax, as long as incomes below those limits are liable to be taxed.

15. Taxes on net income tend to stay put.

16. The making available for municipal purposes of a share of the taxes on personal income and business, tends to convert a part of the indirect burden of municipal taxation to the direct form.

17. The Habitation Tax on rental values as a means of arriving at ability to pay is a failure and should not be adopted except in extremity.

18. Taxes on motor-vehicles and amusement taxes should contribute to the support of local services.

19. Possible and existing sources of special revenue should be carefully scrutinized with a view to increasing revenue from sources other than taxation.

20. Every means of cutting down "overhead" should be considered; among them the possibility of a metropolitan area for certain general services.

21. The tax problem cannot be considered entirely apart from the elimination of waste and minimizing of unproductive expenditures. One hundred thousand dollars saved is better than finding a new tax or remitting an old one. Most unnecessary expenditure is caused by lack of knowledge or lack of planning. Hence civic estimates should be prepared during the last months of one year ready for immediate consideration by the council of the next year.

Some one has said something like this, that spending a dollar less than ones income and spending a dollar more than ones income spell the difference between contentment and worry. How does this apply to a city?

22. An early date for the payment of taxes saves the tax-payer money.

23. A tax is either due or not due. Hence bonuses for paying taxes, which are a just debt, should be abolished, and a flat penalty combined with a progressively increasing penalty should be enforced, so that the simply unlucky tax-payer would not unduly suffer, and the men, if any, attempting to use city funds in their businesses would find it unprofitable.

24. Local administration of local affairs is essential in obtaining adequate service.

25. Central supervision of such services as Education, Assessment, Town Planning, etc., is equally essential.

26. "He who pays the piper calls the tune." Hence local tax-payers should contribute largely to all local services in order to maintain effective control. Standing on the other foot will not permanently help the local tax-payer. Both feet will be damaged thereby.

27. The so-called "Unearned Increment" which is an increment to capital values, should contribute to capital expenditures as and when it accrues.

28. "Letting George do it." will not supply the necessary funds. Paying for city services is as much a duty as paying the butcher, the baker, the candlestick maker. What a man orders he pays for. Living in Vancouver is *prima facie* evidence that the resident has ordered service.

29. A man cannot do his citizenship by proxy any more than he can reap dividends from a "religion held in his wife's name."

VII. Suggestions and Recommendations.

A. A possible taxation policy for Vancouver.

While there may be several ways in which Vancouver may get

more money from the tax-payers, the writer can recommend but only. This requires reasonable co-operation between the Province and the Municipalities and can be made effective within a moderate period of time. The main features of the plan which the writer suggests are as follows:

1. A Real Property Tax as at present.
2. A share of a Provincial Personal Income Tax on all personal incomes, at increased rates if necessary.
3. A Business Tax at a flat rate, or, at two separate flat rates according as the business is incorporated or unincorporated; said tax to be administered by the Province, any revenues resulting to be distributed to the Municipalities.
4. A minimum Income Tax or Service Tax applicable to both sexes, in the event of the Province maintaining the principle of flat rate taxation on persons not otherwise taxed, said service tax being substituted for the poll-tax and the proceeds being made available to the Municipalities at least to the extent of fifty per cent. of the amount raised within their limits.
5. Half the local proceeds of the Provincial Tax on motor-vehicles.
6. Half the local proceeds of the Provincial Amusement Tax.
7. Increased miscellaneous Revenue from special sources other than taxation.

The writer recommends that:

1. The City of Vancouver, along with the other municipalities of the Province, request the Government to set aside a share of a personal income tax as above described, or, failing its adoption, a share of the proceeds of the present Provincial Income Tax. The percentage to be made available to the municipalities having been established, after due consideration of such factors as the presence in cities of head offices of companies which do the bulk of their business elsewhere. The resulting municipal share should be divided between the municipalities on the basis of real property assessments, **if and when these have been equalized by a Provincial Board**, or, failing this, on the basis of population.

The percentage should be placed high enough to yield to the City of Vancouver at least four hundred thousand dollars from this source.

2. The City, along with other municipalities, memorialize the Provincial Government to establish a business tax on all businesses whether conducted by individuals, partnerships or incorporations, at a rate of one or two percent on each of the first two and of two or four percent on the third, such tax being the sole tax on business as such. The total balance of the profits of the business would be available for Provincial Income Taxes at graduated rates, and might be collected at the source in the case of partnerships and corporations, the balance of profits or dividends being forwarded to the recipients along with receipts for the amounts deducted. On the sending in of personal application with the necessary vouchers, any adjustments required by the provisions of the law with regard to exemptions could

readily be made. The revenues from the proposed business tax should be distributed in great part to the municipalities, which give the bulk of the direct services to business; but a small share of the proceeds could fairly be retained by the Province to cover the cost of collection. The writer is unable to obtain the data on which an estimate of the productivity of this tax might be based, but believes that the percentages should be so placed that Vancouver's share of the resulting revenue should not fall short of seventy-five thousand dollars per annum. A revenue of one hundred and fifty thousand dollars per annum, or over, would not be unreasonable.

3. The City, in co-operation with the other municipalities, request the government—failing the abandonment of the whole principle of a flat rate tax on persons, which the writer does not recommend under present conditions—to establish, in place of a poll-tax, a minimum income tax or service tax to be applicable to both sexes under identical conditions. The proceeds of such tax should be turned over to the municipalities in which they are collected at least to the extent of fifty per cent of the totals. The writer cannot do more than hazard a guess as to the amount which would become available to Vancouver. Perhaps seventy-five thousand dollars per annum would not be too much to expect. Failing the adoption of this tax or the granting by the Province of a share in the existing poll-tax, the percentage of income tax to be turned over to the municipalities by the Province as above suggested would have to be increased proportionately. If the municipalities knew that they would share in the service tax, would not the productivity of the present poll-tax be greatly exceeded?

It is the opinion of the writer that all such taxes as poll-taxes, minimum income, or service taxes should be dispensed with when the Province reaches a stage of fiscal development which will make them unnecessary.

4. The city, in co-operation with the other municipalities of the Province, request the Province to remit to the municipalities at least fifty per cent. of the revenue raised in each locality from motor-vehicle and amusement taxes. This should increase the city's revenue by two hundred thousand dollars annually.

5. The city make a judicious and careful revision of miscellaneous sources of revenue, existing or possible, with a view to increasing their productivity. It very probably will be found that some existing sources may be somewhat reduced on account of the new sources suggested. On the other hand some can be rendered more productive. In 1918, on motion of Mayor Church, Finance Commissioner Bradshaw was requested to report on "New Forms of Revenue" for the City of Toronto. The joint reports of twelve heads of Civic Departments resulted. This report will be an invaluable help in the revision mentioned above. An additional sum of from ten to twenty thousand dollars per annum might possibly be obtained from miscellaneous revenue.

The changes suggested would probably bring into the City from all sources an additional revenue of over seven hundred and fifty thousand dollars per annum. Any advance on this would be a matter of arrangement between the Province and the municipalities.

B. Further Consideration.

1. In the first year after adopting a new revenue basis, the estimated revenues from new sources should be greatly discounted. It is safer to have a large surplus the first year than a large deficit. Experience will enable the city to arrive at accurate revenue estimates.

2. If assessments are not already equitable, as between different properties, the finding of new sources of revenue will not greatly affect a large number of individual grievances.

3. A "gospel of despair" should not dictate Vancouver's policy with regard to either schools or hospitals. The writer believes that the ideal to be reached is home rule in local administration, co-operative financial support, and Provincial supervision, in these as in other matters of great importance to the community.

4. The time of passing the estimates and the date of the payment of taxes are very important considerations not only from the standpoint of finance but of community planning.

5. The writer cannot refrain from again suggesting, what has so often been suggested in Vancouver, that a metropolitan area would greatly assist in solving the problems of schools and hospitals as well as those of water supply, police and perhaps fire. This should lead to an increase in the effectiveness of administration and possibly to reducing "overhead."

6. Close co-operation between the Province and the municipalities should make it possible to shorten the interval between the receipt of income report forms and the payment by individuals and firms of taxes to the Province. Experience has shown that rapidity of collection leads to reduction of those losses which are due to lapse of time. It is possible that the reduction in this shrinkage might offset considerably the proposed provincial contributions to municipal revenues. The provision that partial payments be required on sending in income statements to the Province would cut down the loss of taxes from short time residents coming into Vancouver to use the schools and other municipal services. Reciprocal information would be valuable in this respect.

C. Pro-forma illustrations of how Statements of Estimated Expenditures would look under the Suggested Plan.

It must of course be distinctly understood that the table below is simply for illustrative purposes. Not having made a study of municipal expenditures and having available quite insufficient data on which to base estimates of the proceeds of the suggested taxes, the writer is not in a position to offer even tentative estimates.

ESTIMATES.

Providing for about one million dollars per annum more than the 1920 official estimates.

Sources	Amounts	Percentages
1. General Taxes	\$5,210,000	78.34% (b)
2. Share of a Provincial Personal Income Tax	400,000	6.01%
3. Share of Provincial Business Tax	90,000	1.35%
4. Service Tax (share)	75,000	1.13%
5. Share of Motor-Vehicle Tax	100,000	3.01%
6. Share of Amusement Tax ..	100,000	
7. Government Grants to Schools	250,000	3.76%
8. Sundry Licenses	150,000	2.26%
9. Sundry Rentals	15,000	0.23%
10. Miscellaneous Revenues	260,000	3.91%
11. Water Rates	(a)
Total	\$6,650,000	100.00%

(a) Water Revenues should not be given in a statement of general revenues. Such enterprises should stand on their own feet and not serve as supports for the tax-rate to lean on.

(b) If the water revenue were included as in the official 1920 estimates, this percentage would be reduced to 72.87%.

APPENDIX.

Previous to the writing of this report four sessions of a Joint Conference on Municipal Taxation, at which seventeen organizations were represented, were held at the City Hall under the chairmanship of His Worship Mayor Gale, and in his absence, of Alderman Ramsay and Mr. J. B. Thomson. While the general public were welcome to all sessions a special invitation was sent out through the press to all citizens who might wish to be heard at the final session. Quite a number took advantage of this invitation. Stenographic reports of the proceedings of the conference were prepared and copies of these may be seen at the office of the City Clerk. Publication of these voluminous reports is, of course, entirely out of the question.

Some of those who gave evidence before the conference submitted summaries of their evidence in the form of letters to the writer. Copies of these are appended below.

City Hall,
Vancouver, B. C.,
December 2nd, 1920.

Mr. M. L. Brittain,
City Hall,
Vancouver B. C.

Dear Sir:—

At the request of Alderman Ramsay, Chairman of Finance, and representative of the Vancouver City Council on the Joint Conference on Municipal Taxation, I beg to submit the following statement in reference to the Financial affairs of the City, more particularly on the question of the present sources of revenue:

ESTIMATED REVENUE.

The estimated revenues for the year 1920 as adopted by the Council in their annual estimates are as follows:—

Sources	Amount	Percentage
General Taxes at 28½ mills net.....	\$4,867,243.40	79.06
Sundry Licenses	237,382.86	3.86
Sundry Rentals	15,000.00	.25
Sundry Fees	294,025.00	4.76
Government Grants (Schools)	242,860.00	3.95
Water Rates	500,000.00	8.12
	<hr/>	
	\$6,156,511.26	100.00

General taxes are shown net, the actual gross levy being \$5,408,048.22, subject to a discount of 10% if paid by the 15th of September equal to \$540,804.82.

Government Grant is based on a per capita of \$460.00 for each teacher on the School Staff.

Water Rates show the gross earnings, the net earnings being estimated at \$60,000.00 subject to a reserve of \$20,000.00.

POWERS OF TAXATION.

The City's powers of taxation are fixed by Charter for general purposes (exclusive of Sinking Fund and Interest and School purposes) at 13 1-3 mills on the dollar on the assessed valuation with a proviso, enacted in 1920, that the City can levy 15 mills if 50% only of the assessed value of improvements are taxed in addition to land.

1920 TAX LEVY.

The levy of 1920 is taxed on Land Value plus 50% of improvements, and is made up as follows:—

General Purposes	\$14.711
Interest & Sinking Fund	8.929
Schools	8.026
Gross Total	31.666
Subject to rebate of 10%	3.166
Net	\$28.50

As the amounts required for Interest and Sinking Fund and School Purposes are fixed, all rebates allowed must come out of the levy for General purposes, which will make the net rate equivalent to 11.55 mills.

LOCAL IMPROVEMENT ASSESSMENTS.

In the above figures we have not taken into consideration the Local Improvement Assessment which directly offsets the fixed charges on Local Improvement Debentures. The amount levied on Land in this way amounted in 1920 to \$411,711.25.

INADEQUACY OF TAXING POWERS.

At the beginning of 1920, the City found itself unable to raise sufficient revenue within its taxing powers of 13 1/3 mills and still follow the policy of 50% exemption on Improvements, and so obtained powers to levy up to 15 mills. These powers in spite of rigid economics were used almost to the full and the City has now no further taxing powers on land to meet the expanding budget which must result from a growing population and the inevitable need of eventually undertaking maintenance and construction work that has been deferred from year to year.

BROADENING OF TAXATION.

The Council has for years realized that real property has been contributing in more than its just proportion to the cost of operating the City and has made repeated applications to the Government for further powers of raising revenue from other sources. The applications included requests for powers to levy a business tax, powers to levy an Income Tax, and for a fair proportion of the revenues derived by the Government from the personal property tax, the Amusement Tax and the Automobile Tax, but so far no general broadening of the sources of revenue has been granted. The object of the present conference, as I understand it, is to obtain the views of the representative organizations of the City as a prelude to an expert recommendation that can be presented to the Government with the unanimous endorsement of the different interests of the community.

Yours faithfully,

A. J. PILKINGTON,
City Comptroller.

Mr. Horace L. Brittain,

RE CITY TAXATION AND CHARTER AMENDMENTS.

1. All Real Estate and Improvements should be assessed at its actual cash value.
2. The Court of Revision should be composed of experienced, capable men free from and independent of the City Council, thus assuring a just assessment for tax purposes.
3. Taxes should be based to some extent on the earning value of the property.
4. A Broadening of Taxation to include all individuals, professional or otherwise, temporarily or permanently employed in Vancouver doing business or domiciled therein to be taxed according to their earning ability and benefits enjoyed. The revenue from such source should be ear-marked for school, hospital or similar public necessities.
5. The elimination of the pernicious system of tax exemption especially on commercialized Improvements.

ROBT. BOLAM,

Rep. Central Ratepayers Assoc.

November 22nd, 1920.
Vancouver, B. C.

Mr. Horace L. Brittain,

Dear Sir:—

I have been directed to lay before you the following suggestions regarding improvements in the methods of Taxation on behalf of the Vancouver Rent Payer's Association.

As we understand the contention of the property owners, it is that as the tenants receive the larger portion of the benefits of civic works and improvements such as schools, fire protection, etc., they should therefore contribute the larger portion of the taxes.

In this we entirely concur and we suggest that the principle be recognized that the tenants as a matter of fact do, pay not only a part, but the whole of the taxes, and that only insofar as the property owner functions as a tenant should he be called upon to pay. We as an association of tenants have to pay the taxes in the last analysis, and that in fact there is, and can be from the nature of things, no other source from which either taxes, or income for the owner can come in the natural course of events except rent.

In the case of property unimproved or only partially improved the owner should be, and is logically, considered as being also the tenant and liable to payment of taxes only in such capacity.

If the point is conceded that the tenants, and the tenants only, pay

the taxes, we contend that the logical result is that they, and they only, should vote on money bylaws which decide what amounts should be raised.

We claim that the contention that the property has a mortgage placed upon it as the result of the passage of a money by-law, is incorrect. The value of the property is increased to a greater extent than sufficient to cover the liability. It would not be unreasonable that, as the property had benefitted by the improvement the owner should be called upon to pay for it. But as has been pointed out, the tenants pay for it, and when paid for the landlord owns it so that the latter can hardly complain. The fact that the owner's property is being improved at somebody else's expense can hardly be referred to as a "liability."

We suggest therefore that when the assessment of property is being fixed for the year by the assessors they shall also fix a maximum rental to be charged during that year, said rental to cover First, the Taxes, Second, Running Expenses, and Third, a reasonable percentage of profit, on the assessed value, to the owner. As to this latter we would suggest that an annual amount, based upon statistics, should be included as an insurance to the owner that in case of hard times the rate shall be maintained at the average agreed upon as fair.

A "Fair Rents Court" to be constituted to consider all appeals regarding the rentals fixed by the assessor in the same manner as the Court of Revision now hears assessment appeals.

Under this system the property owner will be relieved from the suspicion, which has unfortunately been prevalent in the past (though doubtless unfounded) that he has been in the habit of collecting considerably more than he should on the excuse that "the taxes have been raised."

Once the tenants realize that the taxes are being paid by them, they will naturally be careful to see that no unnecessary expenditure is incurred. The plan would have the advantage of removing the friction existing between tenants and landlords by relieving the latter of all responsibility regarding taxation and eliminating them as a factor.

This plan would also ensure that the city would get its taxes promptly as these would be a first charge upon the rent which in most cases is payable monthly.

Above all we contend that by looking conditions squarely and honestly in the face and placing the responsibility both of the incurring expenditure and payment of taxation just where it belongs, a great step in advance will be made. Taxation without representation caused the American Revolution, and it is this which, in our opinion, looms largely in the present difficulty, so far as the question of the taxation of real property is concerned.

We remain

Yours very truly,

Vancouver Rent Payers Assoc.

G. J. Ashworth, Pres.

Vancouver, B. C., November 26th, 1920.

Mr. H. L. Brittain,
Vancouver, B. C.,

Dear Mr. Brittain:

In placing our views before you, we would first suggest that you review the past history of the City with reference to the valuation of property during certain periods which might be termed "boom times," and with reference to what transpired during these periods in the way of fixing valuations, and the resulting attempt to obtain revenue on a basis which at no time represented the true intrinsic value of the real estate affected.

We would also suggest that we think it equally important for your good self to thoroughly consider the question of expenditure on the part of the City, whether it has been extravagant, both in the past and at the present time, and whether the situation which we have to face today was not created more or less through the urgent demands of certain classes of property owners for unnecessary and extravagant expenditures. We would recommend for your attention such items of expenditure as the Georgia-Harris Viaduct, expensive forms of paving in certain sections, ornamental street lighting, etc.

We would also call your attention to the fact that a great many property owners who are clamoring for relief, and who would oppose any proposal for the taxation of the full value of improvements instead of only 50% of the value thereof as at present, are in many instances the same individuals who clamored for this expenditure to enable them to enhance their property from a speculative standpoint.

We would suggest that you give every consideration to the failure on the part of the City to collect arrears of taxation, and the fact that the City of Vancouver until last year had not had a tax sale for fifteen years.*

We would state that in our opinion, property, be it improved or unimproved, when one considers its market value, should not be in any way considered from a speculative standpoint, but should rather be calculated from what it will earn after payment of all taxation levied against it.

When any individual or corporation purchases real estate, it must be admitted that they are or should be fully cognizant of the liabilities they are incurring. Primarily they are given certain preferences by various Acts of Parliament in return for their being the mediums through which taxation is collected, so that at all times an investment of this nature should be considered just the same as any other investment, whether it be mercantile or industrial. Its value is determined by supply and demand; therefore, there is no reason which can be advanced as to why relief should be given of the obligations incurred, any more than in any other line of enterprise.

We further submit that at all times taxes are paid by the occupants of lands or buildings, whether they be the owner or tenant, and are not paid, as is claimed by some, by the property owners only.

* Statement incorrect. Last Sale held 1909.

In any well managed business, all taxes become an overhead charge in the conduct of that business; therefore, that overhead charge is spread over every separate transaction on a fair percentage basis, so that in the final analysis those who receive the service actually pay the taxes.

While it is argued by some that direct taxation would be a much better method of collection than indirect taxation, in our opinion up to the present time there has been no theory put forward to meet a situation such as we have to deal with today, whereby direct taxation would become practicable.

Some arguments are advanced that an Income Tax should be imposed as a better method of getting revenue than the present system, and that this Income Tax should be ear-marked for education. Would this not be class legislation of the worst kind, and would it not mean the removing of the responsibility of citizenship from those who by reason of their lower earning power would not be called upon to subscribe to an Income Tax levy?

It has been further suggested that a certain weekly sum be deducted from wages. In regard to this latter proposal, we would give it as our opinion that were Vancouver or the Province of British Columbia to put such a charge upon the working man and woman, it would have the direct result of creating industrial unrest, and would cause the migration of those who could conveniently get away, to other parts where such a penalty was not imposed.

Further, were the City empowered to levy Income Tax, it would mean that we would be paying three income taxes, as we already have two, one imposed by the Dominion Government and one by the Provincial Government. It has also been suggested that that portion of the Income Tax collected by the Provincial Government in Vancouver should be ear-marked for the use of the City, but this scheme hardly appears to be practicable, as in many cases firms having offices in this city derive their income from sources quite distant from the City, and it would be extremely difficult to arrive at an understanding between the Civic and Provincial authorities as to the proper proportion to which Vancouver would be entitled. Further, in the case of such firms as have offices in Vancouver merely for the convenience of executive officers and their families, and for accounting and purchasing purposes, were the city to levy an Income Tax on such firms the only effect would be to cause them to remove their offices from Vancouver, and much business would be lost to the merchants and manufacturers of this City.

The suggestion was made that a Business Tax be placed upon merchants, manufacturers and other citizens. In our opinion this would simply mean penalizing industries and businesses which are already operating in our midst, and would give an unfair advantage to firms who are operating either in some other parts of the province, another part of Canada, or in foreign countries. We might point out as an example that the wholesale merchant who carries stock in this city, is required to pay a license fee, whereas an outsider may come in and sell in competition with the resident wholesaler, the outsider's only outlay being the expenses incidental to making the trip to Vancouver to wait upon customers here. If we are to build up this

city and district, it would appear that we should rather bonus our manufacturers than penalize them to the advantage of outside competitors.

To impose a Business Tax upon the retail merchant, who is the final distributor, would simply mean duplication of taxation, as we contend that under the present system the retailer, in the rent which he pays for his premises, discharges his obligations to the City for taxes, and passes that charge on to the public, whether resident or transient, for the services rendered to the public.

We do not think that an Occupancy Tax could be economically administered, owing to the frequent changes of abode and the fact that most of the tenancies here are held on a month to month basis, which would tend to make the cost of collection of such a tax disproportionate to the amount collected. We would further submit that a tax of this nature is unfair in its incidence, from the fact that the size of the space occupied is no indication of the volume of business transacted, or the earning power of the tenant.

Summarizing this matter, we would submit that while possibly the present system of taxation is not ideal, we know of no arguments advanced in connection with local conditions, whereby a more fair or equitable basis could be operated more economically than the present system of collection on real estate, improved and unimproved. In other words, if our Municipal Government had in the past operated efficiently the machinery they are possessed of, they would not now find themselves in their present position, and we would recommend that you give careful consideration as to what revenue would be obtained if the present system were operated efficiently from now on.

We agree that the City probably has certain claims on the Provincial Government for a proportion of certain taxes now collected by the Province, such as Automobile Taxes and licenses, where the City renders service to the owners through the use of City streets, and for which the City derives no revenue. We also feel that the City is entitled to consideration from the Province in the way of additional grants for hospital purposes, as the hospital is used in many instances by residents of the Province other than Vancouver citizens, and the hospital unfortunately has to be considered from a charitable standpoint as not all of those treated are able to pay for services rendered.

We also submit that in the event of the sale of liquor being administered by the Government, as large proportion of the cost of administering liquor regulations will fall upon the City, and that a certain proportion of the revenue derived from the sale of liquor should therefore accrue to the city.

We trust that you will consider carefully the probable effect on the industrial life of the City of any broadening of the City's powers for the collection of taxes, in order that no regulations or charges may be imposed which might interfere with the establishment of new industries, or place our present industries at a disadvantage with competitors outside of Vancouver.

Yours very truly,

JAS. B. THOMSON.

Chairman, B. C. Division,
Canadian Manufacturers' Association.

November, 1920.

Mr. Chairman, Mr. Brittain, and Gentlemen:

I am here representing the Federation of Women's Organizations, the Local Council of Women, to report on this Conference. I think that anyone who has listened to the discussions here must realize that some change is necessary in our present system of financing the city.

There are two or three suggestions which I may be allowed to bring before this Conference, some of which I may have already touched upon during these discussions.

1st. That all land within the municipalities, including Government land and buildings be taxed; the Dominion Government has land, and also large public buildings here, which pay no taxes to the city.

2nd. That borrowing and bond issues be discontinued, and a National Savings Bank established by the Government where loans can be obtained at reasonable interest. It is excessive borrowing that has placed the city in its present position; so much revenue has to be paid in interests that there is not a sufficient margin left to carry on the work of the municipality. A man will not invest his capital in industrial enterprises if he can purchase Government bonds; this hinders the development of the country, as if he is a large capitalist he can receive an income without energy and without risk.

3rd. That no person who comes under the Income Tax, including Civil and military servants, be exempt from payment thereof.

4th. That there be a Consolidated Income Tax collected and managed by one agency. As all citizens should contribute to the expenses of the government of the country, I consider the income tax the most just means of raising this revenue, as the man with the small income pays his share while the larger income pays according to income, and this does not bear heavily on any tax-payer. A percentage should be paid to the Federal, the Provincial Governments and the municipalities. The income tax in Limited Liability Companies be deducted from dividends before being paid over to the shareholders.

5th. That in the event of the amusement tax, the automobile tax, and the personal property tax being retained, the city get the revenue derived therefrom.

If you put a tax on personal property the merchants simply put the tax on the price of the goods, and the consumer has to pay for it; besides, you are taxing the merchants capital; and the direct tax on income is more just.

6th. That school buildings throughout the province should be provided by the Provincial Government, under the superintendence of the Education Department, and that a special school rate be levied on all lands throughout the province for school purposes. The maintenance of the buildings might be left in the hands of the School Boards. The providing of schools and the education of our future citizens is too important to be left in the hands of a few rate-payers.

The question of the over-taxation of properties within the city has been so fully discussed by previous speakers that I do not feel that I am justified in saying anything further in the matter.

M. A. ROBERTSON,

Convener Taxation,
Local Council of Women.

Personal Statement by Captain Wm. J. Conway.

Additional Civic Revenue.

The problem is to suggest some means of adding to our civic revenue. Before suggesting a new tax or the increase of an old tax, let us consider the possibility of securing a fair share of the taxes now collected in the city by the Provincial Government.

We understand that our province is the only one in the Dominion that retains the whole of the income tax collected within municipalities. It is generally conceded that the services rendered by the city to the citizen taxpayer is greater than the services rendered to that individual by the Provincial Government; yet the latter receives and retains the whole of the income tax.

The Provincial Government by relinquishing the realty tax to municipalities, recognizes that funds have to be provided with which to supply the services previously rendered by the Provincial Government. Similarly, a portion of the income tax should be given to the city, to enable it to pay for the increased services; services which enable the citizens to carry on business, etc., to their own advantage, and to that of the city and of the province.

From the statements that have recently appeared in the local Press, that the Provincial Government intends to pay the city \$250,000 annually, as a refund of part of the taxes collected by the Provincial Government in the city, it appears that the Provincial Government now recognizes the justice of the claim. Unfortunately the appearance of these statements may be only an indication that election day is close at hand.

The present city taxpayer cannot pay any more taxes; many of us cannot pay even the present taxes. The land on which the city taxes are collected is not elastic, therefore the only way in which more taxes can be levied (not collected) is to tax this land heavier each year, until the bulk of the city land reverts to the city because of unpaid taxes.

A more elastic tax is needed, one that will expand, or bring in more money, as the need increases with the increase of population—spreading the burden over all alike, and not, as at present, putting it all on to one section of the community. Income tax is the logical tax for the purpose; it would reach all sections, would be based on ability to pay, be on a sliding scale, contain exemption of living wage, would be elastic, difficult (and could be made still more difficult) to evade, and would be easy of collection at comparatively low cost, as the machinery already exists.

Assuming that it is not only just, but that it is absolutely necessary, that a part of the taxes now collected in the city by the Provincial Government be repaid to the city in order to enable it to pay for the services it renders to the citizens, the question arises what part or percentage should be repaid. The answer could be found by a joint mission representing the city and the Provincial Government.

Assuming that 30 per cent. be the proportion that the Provincial Government should repay the city under present conditions, a further

question arises what proportion would be fair under improved conditions.

"Present conditions" in the case of the Provincial income tax means that only 60 per cent. of this tax is collected, 40 per cent. being lost, uncollected. From this 60 per cent deduction has to be made of the 10 per cent discount given for prompt payment, and a further deduction for cost of collection.

"Improved conditions" would mean an increase of the collection, from 60 per cent to 70, 80, 90 or even 100 per cent, with no deduction for prompt payment or cost of collection.

If 30 per cent be assumed as a fair refund under present conditions, 50 per cent would be fair under the improved conditions.

How could the present conditions be improved in order to secure the additional refund. By enlisting the co-operation of the employers and employees in the city.

No good, or even ordinary, citizen, objects to pay a fair share of the cost of services received; though some citizens may not object to escape such payment. Any citizen is a better man or woman, as well a better citizen, in paying a fair share of the cost of fire and police protection, schools, roads, streets, water, etc. You would think badly of a friend or neighbour, who, though able to pay his own street car fare, was always tryin', when out with you, to get you to pay it for him. It should be a case of "Dutch treat"; every one should pay his own share, if possible.

This by way of prelude to saying that the co-operation of the employee can be taken for granted; he is willing to pay a fair share, when it be proved that the share is fair, and that the Government is getting it. Now for the co-operation of the employer. It is necessary to secure this co-operation, because the extra work, etc., is to be borne by the employer. Employers already co-operate with the Provincial Government in providing and paying the funds necessary for the carrying on of the Workmen's Compensation Board, and in the collection of the 1 cent per working day from each working man, paying it to the Medical Aid Fund of the Board.

Employers also co-operate with the Federal Government in collecting the Government Sales tax.

How could employers collect income tax from profits, dividends, salaries, bonus, wages, etc. Collection could be made from salary or wages, when paid, on the amount paid, less exemptions, and from the remainder, when payments are made. Collections should be made in the case of wages and salary, or wages alone by means of cancelled Inland Revenue stamps in order to assure payees that the Government obtains the tax. All employers would require to keep a record of the salary or wages due, tax deduction, and the net payment.

The rate of the sliding scale of the income tax could be arranged so as to provide for exemptions; persons receiving weekly \$24 (unmarried), or \$30 (married), with an additional \$4 for each dependent, would have no deduction; payments in excess of these sums, up to \$10 in excess, would be subject to a deduction of, say five cents; an additional

payment not exceeding another \$10, be subject to a 10 cents deduction, etc., until the maximum be reached. Here again, a joint commission could arrange details.

The question as to whether the repayment that the Provincial Government would make to the city would be sufficient for the city's needs, could not be answered here. It would depend upon how much the Government would let go, how much of an increase in collections the new method would secure, and the extent of the city's requirements.

Should it unfortunately transpire that such repayment be insufficient, then recourse would have to be made to a Civic Service tax or Civic levy. This could be struck at as low a rate as possible, could be added to the income tax, and be collected with it.

If a greater sum be deducted from a citizen in the twelve months of any year, than he should have paid in that year, refund should be obtainable.

No enquiry regarding taxation would be complete without a reference to the injury caused to the community by the imposition of additional taxes, to pay for the cost of unorganized, useless, extravagant expenditure.

In conclusion, this opportunity should be taken to represent to the Provincial Government our dislike to the present unfair Personal Property Tax.

Mr. Brittain:

Dear Sir,—Enlarging on what I said at the Convention on Thursday, I might say that the sorest-pressed people in Vancouver are those who have the misfortune to own property; men, yes and women too, struggling to pay taxes, and trying to keep the home together, when face to face with difficulties that threaten them with ruin and disaster. About November, 1917, a deputation waited on the Finance Committee, pleading for an equalization of assessment. Another member of the delegation said that he had a well improved property on Union Street rented at eight dollars per month, and that it took seventeen months' rent to pay the taxes for a year. The same gentleman said he had another property in a different district, where one months' rent paid the taxes for a given year; and I have been told of a property where one month's rent pays the taxes for two years. The Board of Trade in the latter part of 1917 proposed to have a special or special assessors appointed to give all ratepayers a fair assessment, and that ten gentlemen (without remuneration) from as many districts, give evidence with a view of giving to every part of the city a fair assessment. Somehow this proposition was abandoned, and Alderman Kirk at the last Council meeting in January, 1918, proposed to have two special assessors, but 'red tape' turned the proposition down. At the same meeting, Alderman Hoskin told of a property that he owned on Main Street taxed to the tune of \$600.00 a year. The rent from the building on the property was \$30.00 per month. . . .

One would think that there would be some system of grouping

properties with similar earning powers and with the same selling price, and that the ratepayer in these groups would have the same taxes to pay. The opposite is the practice. In some instances a month's rent will pay the taxes for a year, and in others it takes from 50 to 100 per cent of the rents to pay the taxes for a given year. The first step to be taken with a view to a fair assessment is the appointment of special assessors not controlled by the City Council, men who would be guided in their opinions not by boom real estate prices but by the earning power and the selling price of each lot at the present time. I asked a prominent citizen recently if he ever knew of a single ratepayer being successful in winning his case before the Court of Revision. He said he never knew of a single case being adjusted. Our City Council is spending too much money, and to broaden our basis of taxation, without in some way limiting or curbing the City Council's power to borrow and spend, we might as well appoint our envoy, give him a white flag, and tell him to surrender what we have. . . .

I believe that if the Provincial Government were operating our police force they could give us as great an efficiency as we have at present and effect immediately a saving of at least \$150,000 per annum. I believe that our Provincial Government in operating our schools could give us a greater efficiency and at a cost that would correspond with the cost of operation and maintenance in other cities, where they have a much greater percentage of efficiency, and operate their schools at a much lesser cost than we do here. In 1910 our assessment rate was 20 mills, now it is 30 or over for those of us who are in arrears of taxes, and that is a great percentage of those who own property. . . .

If anything was wanting to prove how miserably our City Council had failed in the management of our city's business, the tax sale would supply that want. The tax sale was our crowning disgrace, and that disgrace is to be repeated until many of our ratepayers are driven into beggary. . . .

It took years to build up our extravagances, and it will take men of the first order to pull them down and bring about the era for which we have prayed and waited so long, the happy time when the cry of the oppressed will be heard and when Vancouver will have a chance to resume her onward march to prosperity. In 1914 an Alderman told me that economies could be effected in the different departments to the extent of \$600,000 without in any way impairing the efficiency of any department. Anyone can see at a glance that we are being strangled by the number of our departments, the overlapping, the army of unnecessary, highly paid clerks, and these are the fruitful sources of our financial difficulties. We have, I think, thirteen departments with a head to each of these, many of whom are getting \$300.00 per month. Some of these days when we have the good fortune to fall into the hands of the Receiver, the number of our departments will be reduced to three. It is astonishing to think that the men who have had a free hand in managing our city's business, and who swamped it with debt, could have the heart—on the heels of tax sale—to increase our assessment twenty per cent, and then have the coolness to ask us to squander part of our remaining equity in voting by-laws to increase our liabilities. I think that great attention ought to be paid to our coming budget, how to make our expenditure correspond with our income. Our budgets are generally enunciated not by those who have to pay

them or by our associations, but by our police union, our school trustees, the hospital, the firemen, the Board of Works, and by every department in our city. It should be remembered that there is a limit to what our ratepayers can pay, and the greatest care ought to be exercised, so that the limit is not exceeded. . . .

At the meeting before referred to, before the Finance Committee in November, 1917, our present mayor, then Alderman, Gale, expressed himself as dissatisfied with the mode of assessment then prevailing and as in favour of giving a fair assessment. And again, when he was mayor in 1918, before the Court of Revision he said that the Court of Revision would be a joke no longer, as he intended making the Court of Revision everything it ought to be. Has there been any change in this caricature of a Court of Justice? Absolutely none, and there won't be until an independent Court of reliable men are appointed, men whom the City Council will have no control whatever. . . .

I remain yours sincerely,

S. A. McDOWELL

Note.—Mr. McDowell's complete letter may be seen at the office of the City Clerk.

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